GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:751
ANSWERED ON:17.05.2002
HOUSING LOANS
SRIKANTA DATTA NARASIMHARAJA WADIYAR

Will the Minister of FINANCE be pleased to state:

(a) whether all public sector banks are giving housing loans at present;

(b) if not, the reasons therefor;

(c) whether the Government have a proposal to liberalise the sanction of . housing loans and also to reduce the rate of interest with retrospective effect; and

(d) if so, the details of the plan of the Government in that regard?

Answer

FINANCE MINISTER (SHRI Y ASHW ANT SINHA)

(a) to (d) : A Statement is laid on the Table of the House.

POSITION NO.11
STATEMENT REFERREED TO IN REPLY TO PARTS (a) TO (d) OF THE LOK SABHA STARRED QUESTION NO.751 REGARDING HOUSING LOANS FOR ANSWER ON 17TH MAY, 2002 TAB LED BY SHRI S.D.N.R.WADIYAR.

(a) to (d) : Yes, Sir. Reserve Bank of India have issued instructions to all commercial banks. prescribing the annual allocation limit for housing finance. Accordingly, each bank is required to compute its share of the housing finance allocation at 3 percent of its incremental deposits over the previous year. There is no objection to banks exceeding this level having regard to their resources position. The lending rates of banks from time to time are governed by the directives on interest rate issued by RBI. As per extant guidelines the interest on loaNS up to RS.2 lakh should not exceed Prime Lending Rate (PIR) of the bank and beyond Rs. 2 lakhs, banks are free to charge rates over PIR but within the maximum spread fixed by bank. There has been reduction in PLRs of banks following reduction in Bank Rate at:1d Cash Reserve Ratio by RBI. The reduction in the processing fees and rates of interest coupled with options of floating rates and increase in the tenure of the loan has enabled the common people. to access the formal financial sector for assistance at much more affordable rates.

With a view to further improve the flow of credit to housing sector, in the recently announced Monetary & Credit Policy for the year 2002-03 RBI proposed to liberalisethe prudential requirements for housing finance by banks and encourage investment by banks in securitised debt instruments of Housing Finance Companies (HFCs). Accordingly:

. Banks extending loans against residential housing properties would be required to assign risk weight of 50 percent, instead of present 100 percent. Loans against the security of commercial real estate would continue to attract 100 percent risk weight as hitherto.

. Investments made by banks in Mortgage Backed Securities (MBS)` of residential assets by HFCs which are recognised and supery,ised by NHB would also be assigned a risk weight of 50 percent for the purpose of capital adequacy. However, investment by banks in MBS of housing assets Which include commercial properties would attract 100 percent. risk weight.

. Investments by banks in MBS issued by HFCs supervised by NHB will be reckoned for inclusion in the prescribed housing finance allocation of 3.0 percent.

. A Working Group would be set up to suggest modalities for widening the investor base, improving the quality of assets, creating liquicfity for trading in such assets and other related issues.